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BLIC AFFAIRS PAMPHLETS

GUNS, PLANES, AND YOUR POCKETBOOK

Y ROLF NUGENT

What sacrifices will YOU have to make for defense?

Can America have both guns and butter?

Should you buy less or more on the instalment plan?

PUBLIC AFFAIRS PAMPHLETS
No. 59 1941

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GUNS, PLANES, AND YOUR POCKETBOOK

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By ROLF NUGENT

IN December, 1917, Frank A. Vanderlip, chairman of the National War Savings Committee, described the job of arming the United States in these words:

> This war is the biggest job America ever faced, or is ever likely to face. It is a job so big that none of us has walked around and measured it. We have only got some little views of the mountain that is ahead of us. We are just beginning to understand . . . what it means to prepare America for war. . . .
>
> We are apt to measure things with the yardstick of the dollar—this money value of things. . . . Do you know what a billion dollars is? I don't. . . . And we are to raise $19,000,000,000. It would make a ring of twenty-dollar gold pieces around the equator, one lying next to the other. . . . The value of all the railroads in the country—tracks, terminals, equipment, locomotives, cars, everything—is less than $19,000,000,000. What would you think if we had to reproduce the railroad system of America in a year? It would be something of a job, wouldn't it?

Mr. Nugent is Director of the Department of Consumer Credit Studies of the Russell Sage Foundation, and author of *Consumer Credit and Economic Stability*, published by the Russell Sage Foundation, 1939.

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Mr. Vanderlip's comments are remarkably appropriate today. He was wrong in his belief that this nation was unlikely again to face so enormous a task. Once again, within twenty-five years, we have undertaken the huge job of arming an ill-prepared nation. Once again a federal government budget of more than $19,000,000,000 has been under consideration. Once again we must accomplish within the space of a few months a job as big as that of building the entire American railroad system.

But today's task is far bigger than the one that we faced in 1917. Mechanized warfare has enormously increased the costs of defense. The first World War was fought largely by infantrymen armed with rifles. The second is being fought with airplanes, heavily armored tanks, and motorized infantry equipped with automatic weapons. The result of these changes may be seen in the fact that more than half of Germany's national income was devoted to military expenditures during the first year of the present war—as compared with about one-sixth during the same period of the first World War.

The decision to rearm was taken with full knowledge that the cost would be tremendous, and there is every reason to believe that it would have been the same no matter how high the price. Nevertheless, it is important to know what defense will cost. What price must we pay for security against attack? What sacrifices must be made in our standards of living? How can we keep the cost of defense down to the lowest possible point?

Cost of the Defense Program

As first outlined in the summer of 1940, after the invasion of the Low Countries and the fall of France, the defense program was expected to cost some $25,000,000,000. Since then, however, the program has grown. Additional authorizations for ships, airplanes, guns, and supplies; for construction of additional naval and air bases; and for aid to other countries under the Lend-Lease Act have already raised the official total to a figure approaching $45,000,000,000.

This is the estimated cost of the program authorized by

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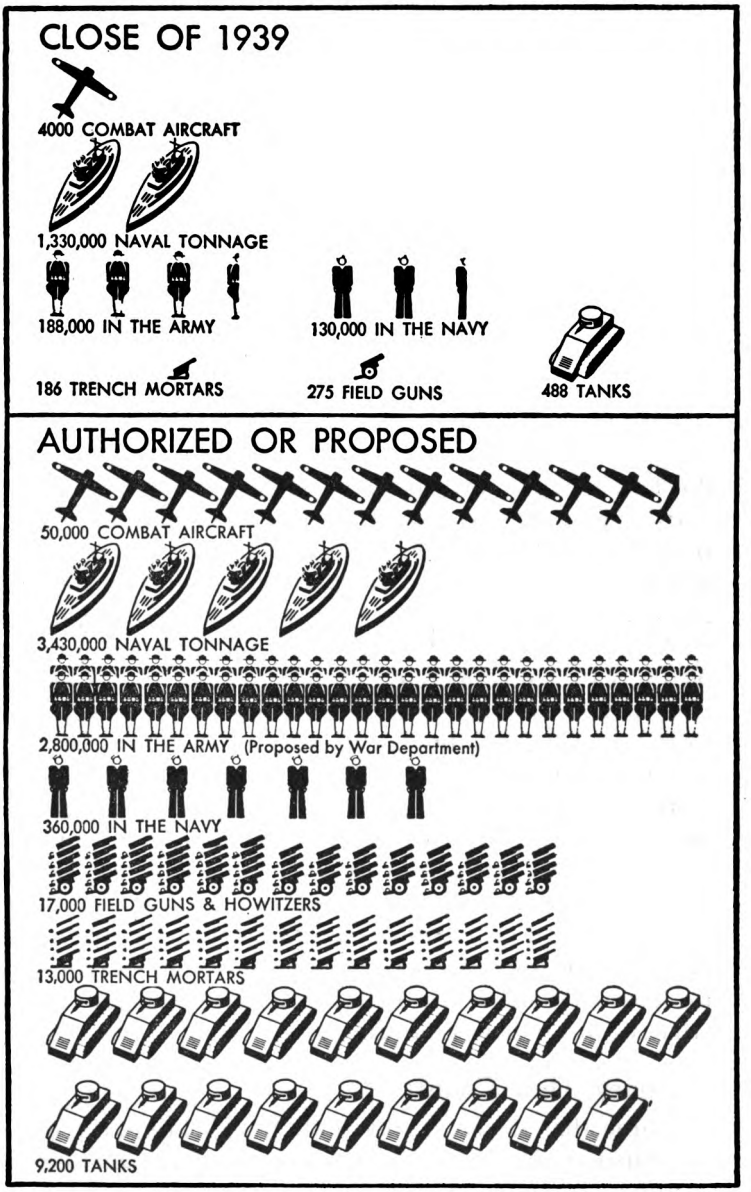
DEFENSE STRENGTH OF THE UNITED STATES



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Congress. The plans call for a two-ocean navy—doubling our present naval strength; training an army of 1,500,000 men and providing equipment for 2,000,000; and producing 50,000 combat planes—16,000 for Great Britain and 34,000 for our own forces. But it must be perfectly clear to all that our defense needs, even for the immediate future, cannot be accurately foreseen. The War Department has drawn plans for increasing the army to 2,800,000 men. The schedule of bomber production is to be enlarged. The need for building many more merchant ships is plain. Present estimates of the cost of defense will undoubtedly turn out to be far too low.

At the lowest, then, the national defense program will cost about $45,000,000,000. Even this sum is more than most of us can imagine. It is $10,000,000,000 more than our entire military and naval costs during the first World War, in spite of the fact that the present price level is far below that of the earlier period. It is more than the total value of all common stocks listed on the New York Stock Exchange and the New York Curb Exchange. It is about as much as the total value of manufactures produced in the United States during 1935. It is 60 per cent of the entire national income in 1940.

What will so enormous an outlay cost the American people? Obviously, what the federal government spends is spent by all of us. The defense program will cost about $340 for every man, woman, and child in the United States—about $1,300 a family. The Treasury planned originally that two-thirds of all government expenditures should come from taxation and the remainder should come from the sale of government bonds. This goal is unlikely to be achieved. But sooner or later all government spendings must be met directly or indirectly out of taxes. The decision to borrow part of the cost of defense is a decision to postpone part of the tax that we must pay some time.

Not Money That Counts

Nothing that we have said really brings home the extent of the burden that the American people have assumed. It does not help much to say that the defense program will

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COSTS OF THE DEFENSE PROGRAM

COMPARED WITH COSTS OF CERTAIN NATIONAL ASSETS



20 BILLION DOLLARS: TOTAL ORIGINAL VALUE OF ALL PASSENGER AUTOMOBILES NOW IN USE



25 BILLION DOLLARS: TOTAL INVESTMENT IN THE AMERICAN RAILROAD SYSTEM



40 BILLION DOLLARS: ORIGINAL VALUE OF ALL BUILDING CONSTRUCTION IN THE UNITED STATES DURING LAST 20 YEARS



45 BILLION DOLLARS: DEFENSE PROGRAM (ESTIMATED IN SUMMER 1941)

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cost the nation enough twenty-dollar gold pieces to reach two and a half times around the equator when laid side by side. The enormous American hoard of gold is not half large enough for this purpose. For that matter, the entire stock of monetary gold throughout the world is not large enough to do this. It does not even mean much to say that the defense program will cost $1,300 a family. For such a sum could not be raised immediately, even if the government took over the entire bank balance of every person in the United States.

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Wars are not fought with gold or with bank balances or with money. They are fought with man power, with raw materials, and with industrial equipment. The defense program does not consist of spending so much money, but of enlisting and training men for the Army and Navy, and of producing battleships, airplanes, tanks, guns, and other military equipment and supplies. To repeat Mr. Vanderlip's illustration, we must "spend" for defense almost twice as much man power and materials as were spent in building all the American railroads.

The national defense program requires staggering amounts of labor, raw materials, and productive equipment. As presently outlined, it will take some 20 million man-years of labor to produce the necessary equipment and supplies,* to say nothing of the additional man power required for the armed forces. It will take close to 100 million tons of steel; millions of tons of copper, lead, and zinc; and several hundred thousand tons of aluminum. It will take millions of tons of coal and millions of barrels of oil. It will take thousands of factories and hundreds of thousands of machines. To some extent, these costs may be said to be passed on to future generations through the using up of natural resources that cannot be replaced. But in terms of work and production, these costs must be met as we go along and in full as the defense program progresses. They cannot be dodged or deferred.

GUNS VERSUS BUTTER

IN discussions of the price which the people must pay for military weapons, we have often heard the phrase "guns or butter." This phrase is a happy one so far as it suggests that the main problem is production—finding enough goods and services rather than finding enough money. But it must not

* This figure has been based upon the Bureau of Labor Statistics' estimates of the man power required to produce $17,000,000,000 worth of equipment, materials, and supplies for which appropriations were made during the fiscal year ending June 30, 1941.

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be taken to mean that we must necessarily choose between armaments on one hand, and consumers' goods on the other. It is not as simple as that.

Meaning in Germany

Even in Germany, where the phrase "guns or butter" was coined by Hermann Goering during the early days of Nazi rule, it applied only in a narrow sense. In spite of the effort to encourage agriculture, Germany's production of food was never large enough. For many years food—particularly dairy products from the Scandinavian countries — had been imported in exchange for manufactured goods. The armament program, however, called for large amounts of high-grade Swedish steel. Since the amount of foreign exchange that could be obtained from exports was limited, imports of steel could be increased only by cutting down imports of other things. It was felt that butter could most readily be sacrificed, and the decision was sold to the German people by means of Goering's slogan.

Situation in the United States

In the United States, the defense program was started at a time when business activity was far above depression levels. Our incomes and standards of living were much higher than Germany's. Yet there was, as in Germany in 1933, a large amount of idle labor and idle machinery. There were about 8 million unemployed. There was more food and more of certain types of raw materials than we could use. Few of our mines, quarries, or factories were working at full capacity. Moreover, the fact that we had idle factories and idle machines kept us from replacing outworn machinery and introducing modern mass production methods. Consequently, we were not producing what we could have with the same man power if the most up-to-date methods had been generally used.

The American defense program must be paid for in labor, in materials, and in the use of machines. To the extent that our total output can be increased by drawing on idle man power and equipment or by improving the methods of

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production, we can have defense without cutting down our standard of living. Otherwise, armament production can be increased only by sacrificing production of goods for everyday use. If either producers' goods or consumers' goods are cut down, there is bound to be a reduction in our standard of living.

The issue of guns versus butter in the United States depends, therefore, on: (1) how much we can increase our total production, and (2) how rapidly the defense program can be expanded.

Speeding Up the Defense Effort

"You can put a hen to hatch a setting of eggs, and divide the setting among any number of hens, and put other hens to hatching part-time . . . it is still going to take three weeks to hatch those eggs."

The same thing can be said of the production of many types of defense equipment. Some items, such as barracks, uniforms, bedding, medical equipment, and supplies, can be produced in our stride with peacetime equipment. But many types of weapons, such as battleships, airplanes, tanks, field guns, and automatic rifles, cannot be turned out without delays. The latest military experience has to be taken into account in their design. Methods of production must be worked out. New shipways, new plants, and new machine tools have to be planned and constructed. Staffs of manual and professional workers must be recruited—all of this before actual production begins.

The same thing is true of the Army and Navy. Men could not be called up until the Selective Service Act had been passed, camps provided, supplies obtained, and equipment delivered. Before new pilots could be turned out, houses had to be built for them, air fields constructed, planes built, and instructors trained.

Congressional appropriations have tapered off somewhat since the first defense budget was approved. But because of the time it takes to get started, actual spending has risen steadily.

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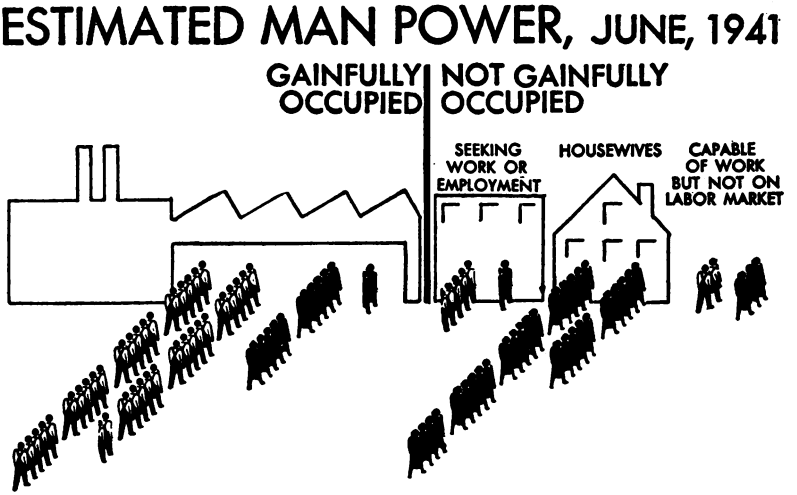
Cost in Man Power

The estimated man power devoted to the defense effort—both in the fighting forces and in the production of military weapons, equipment, and supplies—rose from an average of about 1,800,000 men during the second half of 1940 to an



average of about 5,000,000 men during the first half of 1941. The number required during the second half of 1941 has been estimated at 8,400,000, and at least 11,300,000 men will be needed during the first half of 1942—even if there is no further expansion of the Army. About 11 per cent of our total effective man power was devoted to the defense effort during the first half of 1941. Under present plans, this figure will increase to almost 25 per cent by the summer of 1942.

To what extent can this program be achieved without cutting down our standard of living? For an answer let us look at the record of the first year of the defense program.

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THE FIRST YEAR OF DEFENSE

More Guns and More Butter

The monthly expenditures for defense increased from $177,000,000 in July, 1940, to $473,000,000 in December, and reached $837,000,000 in May, 1941. For July, 1940, defense expenditures represented only about 20 per cent of all federal spendings for that month and less than 3 per cent of the total national income for that month. By May, 1941, however, defense expenditures had risen to almost 60 per cent of federal government expenditures and to about 14 per cent of the national income.

These outlays for defense were made largely from borrowed funds and they tended, therefore, to increase the national income. When it borrows, the federal government either takes money that someone has saved, or gets a bank to create credit. This money is then put into people's pockets. It is spent for payments to soldiers and sailors; for wages for carpenters, plumbers, and electricians building Army camps, for shipwrights and riveters in the Navy yards, and for machinists in the arsenals; and for payments to a multitude of manufacturers and contractors, who, in turn, distribute it as additional salaries, wages, and dividends. Those who benefit directly from these government payments increase their own expenditures, thereby increasing the incomes of those who supply them with goods and services.

The same thing happens when Britain buys supplies in this country. Since the money for these purchases is obtained by drawing on bank balances, gold holdings, and securities, and is poured out in the form of salaries, wages, and dividends by aircraft companies and other suppliers, it serves to increase the amount of money in people's pockets.

Spending by the American and British Governments started the expansion of incomes. It also started two other forces that added, in turn, to the buying power of the American public. One was the expansion of consumer credit. Consumers, with the prospect of fatter pay envelopes, tended

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to buy more things "on time." During the year 1940, the total amount of consumer credit increased roughly by $1,100,000,000 and the growth continued at a similar rate through the first half of 1941.

The other force was the growth of private investment. With business up, additional transportation equipment, new plants and machinery for the manufacture of electric power, and many other types of goods were needed. We cannot measure accurately the amount of private investment during recent months because of the difficulty of separating armaments production from capital goods production. But it seems likely that private investment during the first quarter of 1941 was the highest since 1929.

Little Rise in Prices

The national income in the United States during the first half of 1941 was about 10 per cent higher than for the same period of 1940. If production had not been increased, this rise in incomes would have led to a similar rise in prices. As it was, however, prices rose only moderately. Wholesale prices increased by about 4 per cent between the first half of 1940 and the first half of 1941; and the cost of living rose by less than half as much. On the other hand, the output of our factories increased tremendously. The Federal Reserve Board's index of industrial production (1935-1939 = 100) rose from 108 for the full year of 1939 to 122 for the full year of 1940. For June, 1940, it was 121; for December, 1940, it was 139; and for May, 1941, it was 149 and still rising.

Increased armament production played an important part in the rapid rise of the Federal Reserve Board's index. But the rise was not confined to armament industries. Between June, 1940, and June, 1941, construction of homes and production of automobiles and refrigerators increased by more than 25 per cent. Production of household furniture, cotton, and woolen textiles increased by more than 20 per cent, and there were gains of 15 per cent in many other industries.

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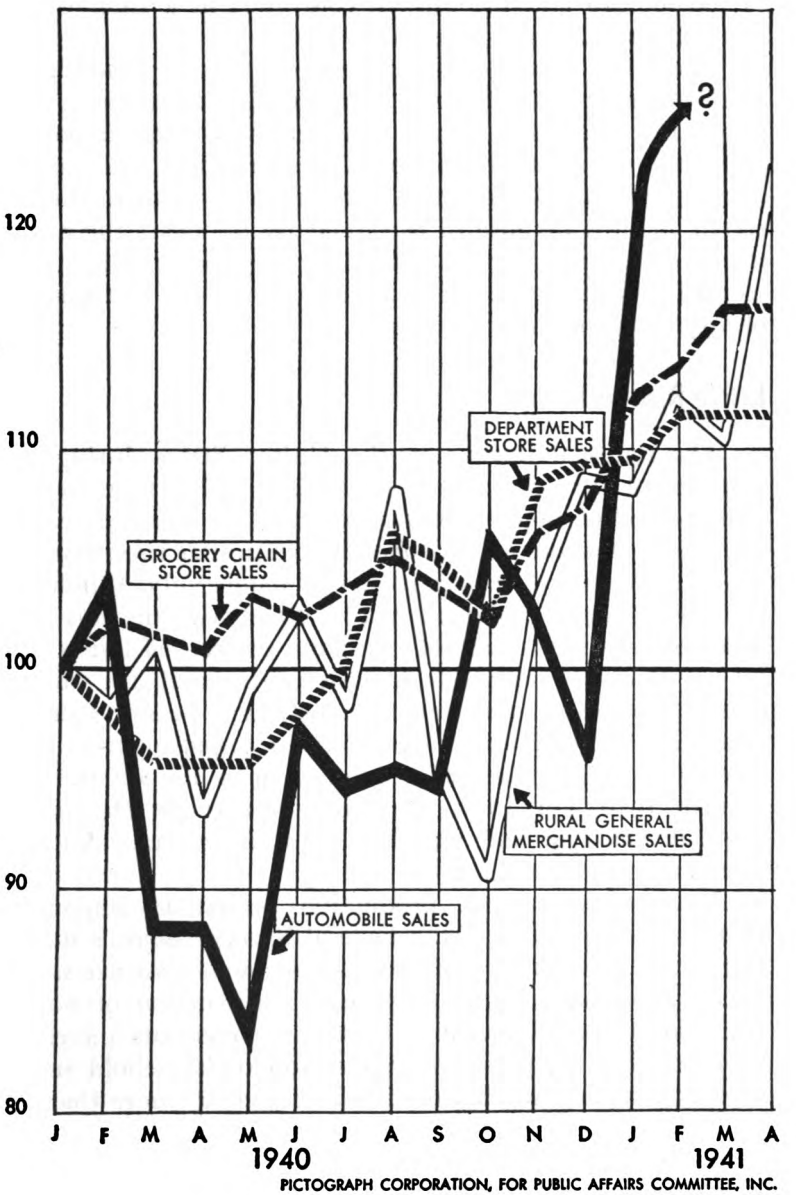
FLOW OF CONSUMERS' GOODS



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No Cut in Living Standards

During the first year of the defense program, we paid for increased armaments in more work and not in lower standards of living. In fact, the defense program brought an increase both in our standards of living and in our national wealth. We consumed more food, clothing, and other goods than we would have done if the defense expenditures had not occurred. We have more factories and machines, more homes, and more automobiles and refrigerators and electric washing machines than we would have had if we had not been compelled to produce more armaments. True, we have drawn upon natural resources which we cannot replace. But this loss has been counterbalanced by the improvement in our industrial plant and the restoration to many men of skills that had been impaired during long periods of unemployment.

Development of Bottlenecks

The first year of the defense program was relatively clear sailing. The fact that we had idle and readily usable resources permitted rapid expansion of all types of production. Defense expenditures, even at the close of the period, were fairly small in comparison with our enormous resources. The going will be tougher during succeeding months. Defense spending is scheduled to increase rapidly, which means that larger and larger quantities of labor, materials, and equipment must be devoted to defense. And the reserves on which we must draw are dwindling, both in quantity and in quality.

By the end of the first year the pinch of scarcity was being felt in more and more areas. The first effects of defense expenditures were felt by a few highly specialized industries—notably shipbuilding, aircraft and arms manufacturing, and other munitions industries. Before these industries could expand, however, there had to be additional equipment and a rapid increase in the flow of raw materials. The impact of defense orders was passed on very promptly to the machine tool industry and to those producing aluminum, steel, nickel and other steel alloys, copper, and zinc.

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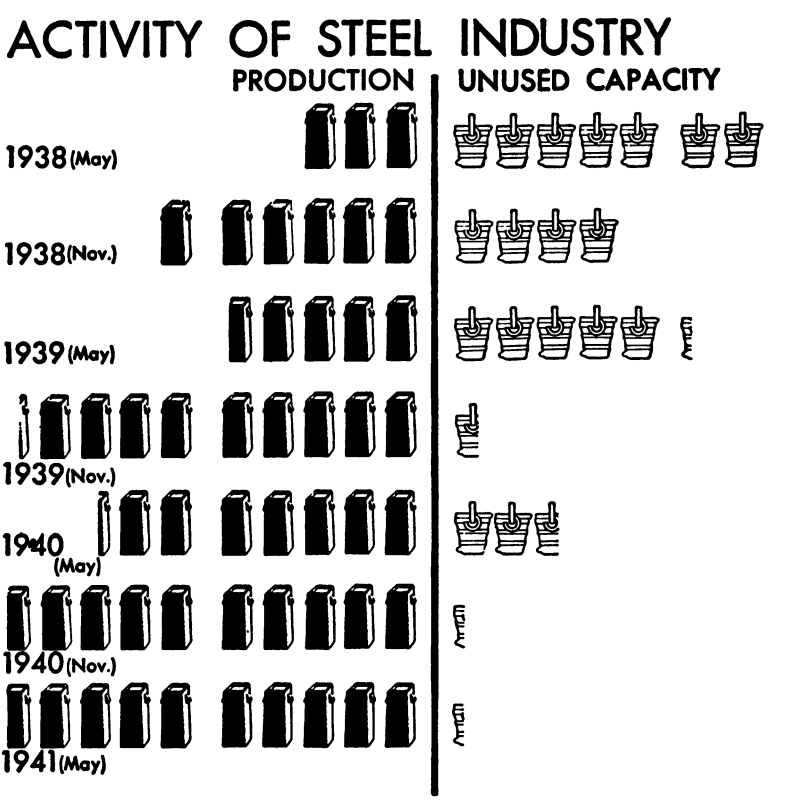

Growing Pains

There was plenty of idle labor and equipment in these industries when the defense program started. And in most of these fields defense orders could have been filled during the first year of the program had it not been for the indirect effects of armament expenditures. We have seen that people had more money to spend as a result of government borrowing and British purchases in this country. They used a good deal of this to buy such things as automobiles, mechanical refrigerators, electric washing machines, vacuum cleaners, gas and electric ranges, and oil burners. This required a lot more

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aluminum, steel, nickel, and other strategic metals. The railroads had to order additional locomotives and freight cars, and many other industries had to order new machinery and had to build additional plants. During the first nine months of the defense program, the pressure on the machine tool and metalworking industries was probably increased as much by these indirect effects of the defense program as by direct orders for military weapons.

Serious bottlenecks developed early in the production of machine tools, aluminum, nickel, magnesium, and zinc. Others are in the making. Even in the steel industry, where our productive capacity is enormous, a shortage has appeared, despite the contrary findings of earlier engineering studies. The defense program is taking more raw materials than the experts estimated it would. It has been learned from bitter experience that one cannot estimate aluminum or steel or nickel requirements merely by adding up the quantities of these metals that go into each airplane, battleship, tank, and field gun. Allowances must be made for increased stocks, for increased materials in transit and in process, and for increased spoilage at each stage of production. These allowances must be very large when production is expanding rapidly.

THE NEXT SIX MONTHS

More Guns — Less of Certain Kinds of Butter

The demands of the defense program upon already overburdened industries are increasing progressively. And we are going to turn out a lot more naval guns, field guns, howitzers, trench mortars, automatic rifles, and shell casings in the next few months. We are building new shipyards so that we can turn out more ships. New factories for production of airplanes and airplane motors are constantly coming into production. Additional plants for manufacture of light tanks and the first factories for mass production of medium tanks

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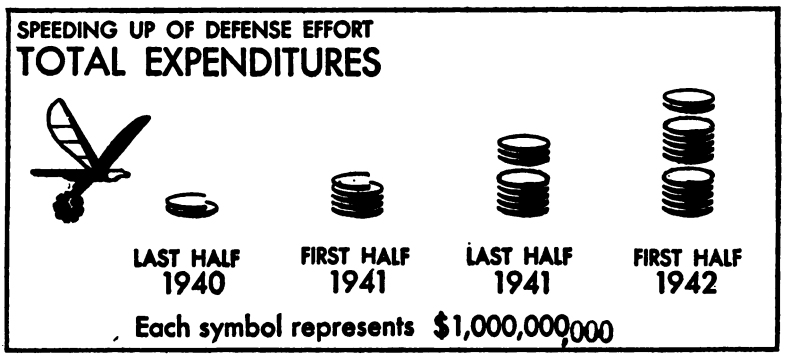
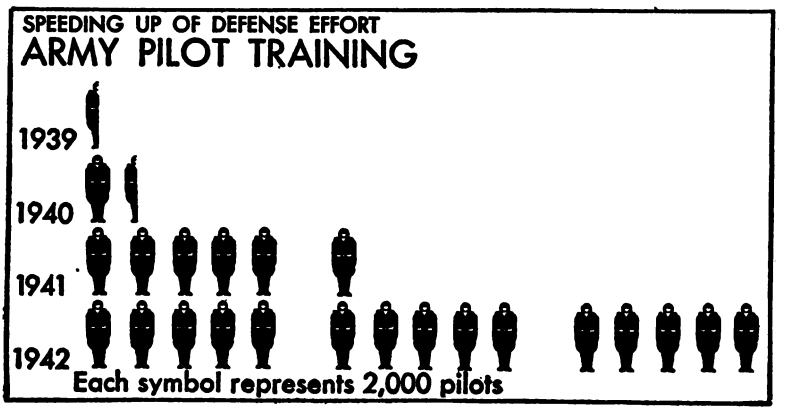


are nearly ready. All of this means a greater demand for skilled labor, and a tremendously increased flow of aluminum, steel, and other metals into defense equipment.

The industries at work on these jobs have nearly all been running at top speed for many months, and in spite of it, unfilled orders have accumulated. There is little likelihood that the capacities of these industries can be enlarged rapidly enough to cover the increased demand for defense equipment, to say nothing of the increase in civilian orders that defense spending may be expected to bring about. The difficulties of rapidly stepping up mining operations, the bottleneck in the machine tool industry, and the scarcity of skilled labor put severe limits on the growth of production.



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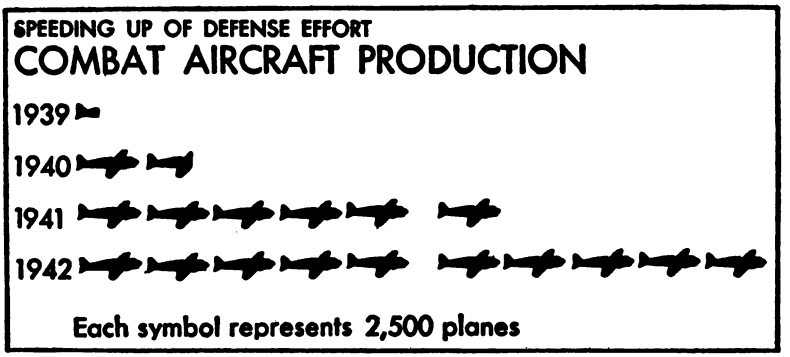
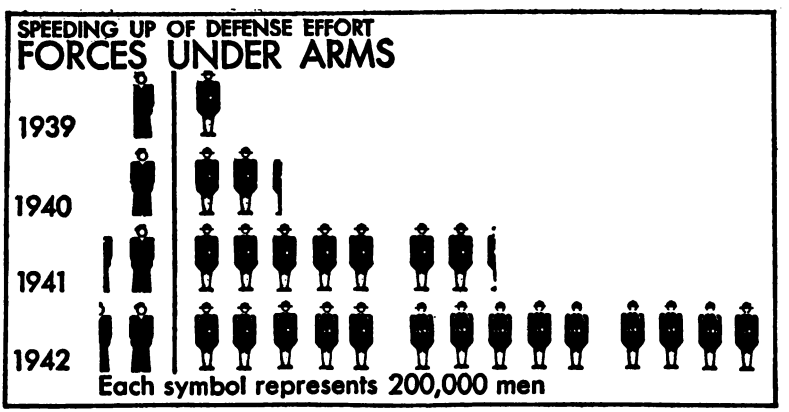


Shortage of Skilled Labor

Of these curbs, the most serious for the immediate future appears to be the shortage of skilled labor. Heretofore, it has been possible to add skilled workers in the machine tool, shipbuilding, metalworking, and heavy manufacturing industries by employing idle men, by attracting those with the necessary skills from other occupations, by "promoting" partially skilled workers, and by training new workers. But the supply of many types of skills has been used up. Employers are resisting raids upon their skilled man power. The use of partially skilled workers has its limits. And the quality of new men is dropping as those most easily trained get jobs.



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Clearly we cannot continue to have both more "guns" and more "butter" from these overloaded industries. If arms production is to continue to grow as planned during the period immediately ahead, the production of goods for civilian use which compete with armaments must be cut down. The decision on this issue is perfectly clear. It will be made in favor of more guns.

Cutting Down Consumption

What kind of civilian goods can most readily be sacrificed? As has already been noted, two general classes of goods compete most heavily with armaments for scarce man power, materials, and equipment. The first is automobiles, refrigerators, washing machines, electric and gas ranges, automatic furnaces, air conditioning and plumbing equipment, suction cleaners, and other steel-, nickel-, and aluminum-bearing household equipment. These are called consumers' durable goods. The second is producers' capital goods, particularly power-driven machinery.

Of the two classes, it is easiest to cut down on consumers' durable goods. Because of their durability, these goods can be used over a period of years—a period which can be materially lengthened if there is a good reason to repair them rather than to replace them. For instance, although automobile production declined to a small fraction of its 1929 level during the depression of the early 30's, the number of automobiles in use remained about the same. At the present time, after three years of large-scale production, the amount of durable goods in the hands of consumers is large. These stocks are a national reserve which can and should be drawn upon in times of emergency. We could easily get along for two or three years on these stocks without undue sacrifice.

On the other hand, we ought, so far as possible, to continue to turn out industrial machinery. Efficient modern machinery increases our general productive capacity and reduces the amount of work that is necessary to turn out goods. This is important both for defense and for maintaining our standard of living.

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Priorities

How should we choose what to make and what not to make during the emergency? A system of priorities, by which defense orders come before other demands on overloaded industries, has already been established by the Office of Production Management. Priorities work well when it is possible to find substitute materials. But this method has severe practical limitations. It restrains production of certain types of goods—limits supply—without changing the demand for these goods.

Ordinarily, under such circumstances, prices rise and those who cannot pay the higher prices are unable to buy. But if all prices are allowed to rise in bottleneck industries, the costs of the defense program would skyrocket. Yet if only prices for everyday goods are allowed to rise, the industries would soon find that they could make more money producing these goods than they can armaments. Nor is the setting of top prices a satisfactory solution. So long as there is more demand for goods than there are goods, there must be some means of determining who will get what goods there are. Price fixing won't work unless it is combined with controls designed to cut down the demand to the level of the supply.

Taxation

Sales of consumers' durable goods depend very largely on the state of our pocketbooks. As people's incomes rise or fall, sales of automobiles, refrigerators, washing machines, and other goods that compete with armaments go up or down about twice as fast as incomes. If we don't want people to buy so much, we can slow them down by raising the income tax. But because the largest part of the demand for the goods listed above comes from persons who do not now pay income taxes, it would be necessary to extend this tax to very small incomes.

Such a reduction of income tax exemptions, even if possible politically, would be questionable from the standpoint of social policy. And it might prove economically disastrous. A general cut in people's incomes would reduce

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their ability to buy not only the products of bottleneck industries, but also the products of industries that have idle productive capacities. It would increase unemployment. It would compel American families generally to pay a price for defense which, under present circumstances, is not only unnecessary but wasteful.

At this stage of the defense program, any reduction in consumer purchases should be limited to goods which compete directly with armaments. One way to do this is to put a special tax on the goods in question. An excise tax of 20 per cent has been proposed for automobiles and other consumers' goods whose production requires the use of strategic skills, materials, and machines. The effectiveness of such a tax will be increased if it is understood that the tax is intended to cut down the buying of goods rather than to produce revenue and that it will be removed when the need is past.

Cutting Down Instalment Sales

But an excise tax will be far more effective in cutting down cash sales than in cutting down sales made on the instalment plan. Instalment buyers tend to look on the weekly or monthly payment as the price which must be paid for the use and eventual ownership of durable goods. Recent Canadian experience with a tax on automobiles suggests that the effect of additional taxes might be lost through a lengthening of the period over which the instalment payments may be spread. A tightening of the terms on which consumers' durable goods can be bought would not only increase the effectiveness of an excise tax but would of itself help to cut down the demand for such goods. About two-thirds of all automobiles, about three-fourths of all mechanical refrigerators, washing machines, and gas and electric ranges, and an even higher percentage of automatic furnaces are bought on the instalment plan. An increase in the down payment and a shortening of the period during which the balance could be paid would substantially cut down the number of persons who would be able to make instalment purchases of goods of this kind.

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It is true that to some extent the restriction of instalment terms would merely shift consumers' expenditures into other fields. Some of those who would be prevented from buying automobiles, refrigerators and other household appliances would spend their money for more food or clothing, for better living quarters, or for more moving picture shows. So long as these things do not interfere with defense needs, and do not work to the advantage of the well-to-do at the expense of the poor, such a shift is highly desirable.

Nevertheless, the total demand for goods and services would be smaller than it would have been if instalment terms had not been restricted. Some persons would not increase other expenditures but would buy defense bonds or save up for cash purchases. The total amount of instalment credit would decline. Fewer instalment purchases would be made, and repayments would exceed new credits. Money would be withdrawn from circulation; and the present income-increasing tendencies of consumer credit would be reversed. Such a restraint upon the expansion of incomes would be highly desirable in the present defense emergency.

For another few months, it seems possible to have more "guns" and, on balance, more "butter." Without interfering with the defense program, we can produce and consume larger quantities of food, cotton and woolen textiles, glassware, crockery, and certain other personal and household supplies; we can go to the movies more often; we can have more haircuts and permanent waves; and we can have, in reasonable quantities, more and better homes. We can and should have a continued flow of modern machinery into our factories. But if the defense program is not to be handicapped, we must have fewer new automobiles, refrigerators, washing machines, gas and electric ranges, and oil burners. This does not mean that we must do without the services which these goods can provide. The principal sacrifice will be in foregoing the greater satisfactions that come from the use of brand-new equipment. We must use our old automobiles and household appliances longer before junking them.

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THE YEAR 1942

More Guns and Less Butter?

Even if there is no change in the present defense program, armament production will expand well into 1942. Defense expenditures which averaged $300,000,000 a month during the last half of 1940 and $750,000,000 a month during the first half of 1941, are expected to reach $2,000,000,000 a month in 1942. This means that the flow of aluminum into airplanes, of steel and nickel and other alloys into battleships, tanks, field guns, and automatic rifles, and the flow of copper and zinc into shell casings must continue to expand. It also means an increasing need for labor of all kinds, but particularly for men in the metalworking trades.

Assuming a defense expenditure of $22,000,000,000 for 1942, roughly 11,300,000 man-years of work must be devoted to defense during that year—about 9,500,000 in the production of weapons, equipment, and supplies, and 1,800,000 in the fighting services. This will require the employment between June, 1941, and June, 1942, of about 5,000,000 additional workers on defense projects if present schedules are kept. If, on the other hand, the War Department's tentative proposal to increase the army to 2,800,000 men is carried through, or if more equipment and supplies are called for, the demand for defense man power will be even greater.

Scarcity of Raw Materials

Raw materials for defense industries will probably become just as scarce as skilled labor. There is no reasonable possibility that production of aluminum, steel, nickel, copper, and zinc can keep pace with the increasing demands for defense materials. The bottlenecks which developed during the first half of 1941 and tightened during the latter part of the year, can be expected to become even tighter in 1942. Moreover, before defense spending reaches its peak, production will be stretched to the limits of capacity in more

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and more industries. Also, supplies of certain goods that can be produced in ample quantities will be restricted by transportation difficulties. For instance, the growing shortage of freight ships will limit imports of copper from Chile and rubber and tin from Malaysia, while a shortage of tankers is already limiting shipments of crude oil from foreign and even domestic ports.

Consumer Sacrifices

It seems clear, then, that defense production will require increasing sacrifices by the American people. The production of automobiles, refrigerators, gas and electric ranges, washing machines, and automatic furnaces will probably have to be cut down severely. Other things, such as suction cleaners, clocks and watches, iron and brass bedsteads and lamps, radios, home motion picture equipment, fuel oil and gasoline, tires and batteries, electric fans, kitchen utensils, and cutlery may be added to the list of things which must be restricted.

Whether the price which the American people must pay for defense in 1942 is to be limited to the sacrifice of certain goods which compete with defense production, or whether, in addition, people's incomes will have to be cut down and consumption generally curtailed, will depend in large part upon the skill with which our labor and tax policies are drawn up and administered. Our productive resources must be fully mobilized if we are to avoid a general lowering of our standards of living. And this can be accomplished only by thoughtful and coordinated action on the part of various agencies of the federal government.

Training Workers

The armament industries must depend on the consumers' goods industries for a large part of their additional skilled labor. But skilled workers leave their old jobs only for higher pay. Consequently, it is important that wages should be better in the armament industries than elsewhere. In addition, it may be necessary to make use of local draft boards.

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A consistent policy of deferring skilled workers only in defense industries and of encouraging shifts of employment in order to qualify for deferment would be useful. It may be necessary for the federal government or the defense industries to pay for moving families and household goods.

Tax Policies

The tax policies of the federal government will be equally important in determining what price the American people must pay for defense in 1942. As defense expenditures increase, the expansion of incomes must, under any circumstances, be slowed down by heavier taxation. But tax policies must be carefully fitted to defense needs. They must be directed first toward cutting down the demand for scarce goods and services, and, if a general shortage of man power and materials develops, toward a general reduction of incomes. Our idle factories will only be used if people want goods. Should we restrict the amount people can buy before our plants are fully at work, the unemployed will be condemned to continued idleness and American families will be compelled to do without goods and services which might well have been produced.

These observations do not spring from any desire to protect American families at the expense of defense requirements. The interests of individual consumers must be sacrificed at any point where they conflict with production of military weapons. But unnecessary Spartan sacrifices are worse than useless. To restrict demand in fields where there are idle men and equipment is an economic waste. More than that, the maintenance of economic growth and the elimination of unemployment are vital elements in the defense of our way of life. However destructive its motives and however distasteful its methods, military dictatorship has proven its ability to bring into action the full productive abilities of a nation. If democracy is to survive, it must provide opportunities for honest, self-respecting work; it must offer advancement for the most capable and ambitious; and it must learn to distribute fairly the products of modern industry.

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CUTTING DOWN CONSUMER CREDIT

WHEN the limits of our productive capacity have been reached, the choice between guns and butter becomes absolute. A further growth in armament production can be had only by sacrificing production of goods for everyday use. Under these circumstances, reduced consumption cannot be avoided. This can be accomplished by raising taxes and by increasing savings, or it will occur through rising prices. But one of the most painless ways is by cutting down instalment selling and other forms of consumer credit.

To the extent that consumers could be persuaded to use part of their incomes for the repayment of debts, the demand for goods would be reduced and funds would be shifted to the financial markets where they would be available to the federal government. The effects of limiting consumer credit are, therefore, similar to those of an increase in savings. In fact, since consumers may save just as effectively by repaying their debts as by putting money in the bank or buying defense bonds, restriction of consumer credit may be looked upon as a form of compulsory savings.

Huge sums are involved. At the close of 1940, the total amount of consumer credit—including balances owed to retail merchants, to sales finance companies and other enterprises that buy instalment contracts from retail dealers, to cash lending agencies, such as credit unions, industrial banking companies, personal loan departments of banks, and personal finance companies, and to those who sell services on credit — amounted to about $9,200,000,000. By June, 1941, the total probably reached $9,800,000,000. About half of this sum is made up of instalment contracts arising directly out of sales of goods and services. About 30 per cent is charge account credits. The remainder consists of cash loans, most of which are payable in instalments.

Instalment Sales

If and when it becomes desirable to cut down the demand for goods and services generally, this could be accomplished by a tightening of the conditions under which credit is avail-

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able to consumers. The method of increasing down-payment and instalment-payment requirements, previously suggested as a means of reducing demand for goods that compete with defense weapons, could be applied to all instalment sales contracts, and the limitation of the period of payment could be applied to instalment loans as well. This would cut down the number and amount of new credit commitments and increase the speed with which they were repaid. Because repayments would be made faster than new credits would be given, instalment credit would be paid off rapidly.

Charge Accounts

In addition, charge account credit could be curtailed. Most such credit is given with the understanding that accounts will be paid in full promptly after the purchaser's next payday or after the first of the following month. But fear of losing customers to more easygoing competitors has kept many stores from enforcing these requirements. Because some customers let their accounts run for long periods and others make partial payments on account, the average charge account item runs about two and a half months before it is paid. The outstanding amount of such credit could, therefore, be cut promptly and substantially by taxing those who are behind in their payments or by denying further credit as long as a previous account remains unpaid.

Results

The total consumer debt could probably be cut down by as much as $1,000,000,000 within two months or by $3,000,000,000 within a year, without serious hardship and without using distasteful methods of compulsion. These sums are small as compared with the amounts which will be spent for defense or raised in taxes during 1942. But they may be of great strategic importance. When the limits of our productive capacity have been reached, it doesn't take much to start an inflation. The ability to curtail demand promptly by cutting down consumer credit may mean the difference between relatively stable prices and an upward spiral.

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On the other hand, if consumer credit is not restricted, it is likely to become in itself one of the most dangerous inflationary forces as full employment is approached. The ease with which retail credit can be got encourages speculative buying. The minute consumers become generally fearful of rising prices, we can expect a buying splurge financed largely by an expansion of consumer credit.

The best thing about the control of consumer credit as a weapon against inflation is its flexibility. If the power to tighten instalment credit terms and to restrict charge account credit were given to the Federal Reserve Board, which is certainly the best equipped of all government agencies to administer such controls, the degree of restraint could be adjusted to the need for such action. It would be impossible to predict accurately the effect of a given change in instalment credit terms or in the conditions under which charge account credit could be extended. But restrictions could be applied gradually until the necessary reduction had been accomplished.

Control of consumer credit is not a permanent substitute for other means of cutting down private consumption. Each step gradually loses its effectiveness. So it is necessary to adopt stricter and stricter regulations in order to produce a continuous curtailment of consumption. Taxes and forced savings will also help hold down buying power. But control of consumer credit works more quickly and can be adjusted more accurately than these more powerful but clumsier weapons.

POST-DEFENSE READJUSTMENT

WE also must think of what will happen after the defense program has ended. The price which the American people must pay for defense is to be measured not only in immediate sacrifices, but also by the costs of readjustment to peacetime conditions when the defense emergency has passed. The latter costs are the least clearly predictable because they

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will depend so much on the wisdom of our policies during the adjustment period and on the skill and vigor with which these policies are carried out.

One of the costs of defense that will be felt in the period of readjustment is the throwing of our productive system out of gear. As has already been pointed out, expansion of armament production greatly increases the demand for certain products, notably metals and machine tools. Increasing armament expenditures compel expansion of plants to produce these things, and we are bound to emerge from the defense program with larger capacities to produce them than would ordinarily be needed in peacetime.

This problem can be made less difficult by cutting down during the emergency consumption of goods which compete with defense weapons for scarce materials, skills, and equipment. But it cannot be avoided without endangering our national safety. Enlargement of our steel-making capacity is as important to our defense as a two-ocean navy. Plant capacities must be expanded regardless of the cost when we go back to a peacetime basis.

In time, the peacetime readjustment could be accomplished without government assistance. But the cost would be tremendous. The slow process of natural adjustment would be accompanied by numerous bankruptcies, large-scale unemployment, and distress.

Providing Purchasing Power

One way by which return to peacetime conditions can be eased for overexpanded industries is to build up a backlog of civilian demand. If we cut down people's ability to buy automobiles, refrigerators, washing machines, and other metal-bearing consumers' goods now, they will want them all the more once the emergency is over. This will be particularly true if demand is cut down by an emergency excise tax and by restriction of instalment credit terms.

A second method of making peacetime readjustment easier is to undertake public works programs that are especially designed to use the products of overexpanded industries.

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A third method is to take existing plants out of production. It would be wasteful to close factories financed by the federal government under the emergency plant program because these will generally be the most modern and efficient ones. But the government might trade these plants through competitive bidding for old plants, with the understanding that the latter would be dismantled. Certain factories that were designed especially for making military weapons might be taken out of production and kept intact as a defense reserve rather than adapted to civilian production.

Another danger for the period of readjustment lies in the probable cutting down of government spending. Armament expenditures have been stimulating the whole economic system by pumping funds into the income stream more rapidly than they are being withdrawn by taxes and by savings. When armament production declines, however, the stimulating effect of government spending will be reduced. This might lead to a severe loss of incomes and employment which would cost more in terms of human sacrifice than the entire armament program.

Here again the difficulties can be reduced but not avoided if proper policies are followed now. To the extent that consumer credit can be cut down during the present defense emergency, its expansion after the emergency can be relied on to make up for the decline in government spending. And to the extent that reserves of consumers' purchasing power can be built up through a system of deferred wages, increased spending out of savings should fill at least part of the gap left by the decline in government expenditures.

New Government Spending

These reserves, however, will not be large enough to stem the tide of deflation should federal spending suddenly cease. Such expenditures must be cut down gradually with a weather eye to the trend of employment. Since additional armaments will no longer be required, expenditures can be redirected into useful fields. The list of useful things that could be done by public enterprise is enormous. For example, we need modern apartments to replace our slums;

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we need more public libraries, hospitals, gymnasiums, and parks; we need more forests and more dams to produce electric power, to harness floods, and to conserve our soil; we need to beautify our towns and cities, large sections of which are shockingly squalid, judged by even the most primitive standards.

When public works projects are started, taxes should be cut down, particularly those which fall most heavily on goods in everyday use. Special excise taxes designed to restrict demand for goods which compete with armaments and taxes on small incomes should be eliminated entirely.

These policies will cost money, and they will be resisted energetically by those who will point to the huge federal debt and urge the need for strict economy in public administration. Some authorities have insisted that the federal government will have to spend as much during the period of readjustment as during the period of rearmament. This may be true. But in this field of expenditure, as in the field of armament expenditures, money costs are misleading.

At present, business is booming under the effects of defense expenditures. Employment is increasing and, for the first time in more than ten years, there are sufficient opportunities for young men. In spite of the fact that a large part of our energy is being devoted to production of defense weapons, our general standard of living is higher than ever before in our history. Why, one may well ask, should these signs of economic well-being come only when we are engaged in creating weapons for destruction?

Despite war prosperity, relief from the enormous burden of defense production cannot be regarded as anything but an unmixed blessing. For we should then be able to increase our standard of living still further. We should be able to have more of the things that all of us need or want, individually or as a group. The only thing necessary is to assure enough consumer demand to maintain stability of production. But it is unlikely that this can occur without the stimulant of government spending, at least during the period of transition.

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